

# This prescription comes with cautions

*The new cost-savings health care plans out there don't save money for everyone.  
How to determine what will work for your business.*

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**D**ecember and the holiday season can bring many joys to our personal lives. But this time of year can also carry a certain amount of dread for businesses as they begin to review their health insurance renewal rates for the coming year.

In 2005, double digit-increases in health premiums (10 to 15 percent) were the norm for many companies in Central Massachusetts, and all indications point to similar increases in 2006. Of course, the renewal rates for any particular company can vary widely, based on changes in the employee census. Last year we saw some companies actually have premium reductions, while others in the region had costs escalate by 30 percent.

Providing health insurance for employees is already the largest line-item in a company's benefits budget, so another year of double-digit increases will squeeze those budgets even further. At the same time, however, companies that compete for talented workers know that they must have good health benefits in place or they won't attract good employees. So as the season for renewing health coverage begins, companies should take a hard look at their current plan and see where savings and improvements may be found.

There are multiple variables involved in designing health insurance plans, which can be adjusted to affect costs and benefits. By regulation, companies with more than 50 employees have greater latitude to negotiate with regard to the services included in a health plan; however all companies have the ability to use premium-splits (the percentage the company pays versus the percentage the employee pays), deductibles, co-payment strategies and plan design options to help mitigate costs while maintaining a reasonable level of benefits. The key is to make informed choices.

For example, we recently worked with a small wholesale company in Central Massachusetts that had changed in its health plan design in hopes of saving money. The company switched from a co-payment plan to a more traditional deductible plan for its health coverage. The difference proved significant. When an employee visits his or her doctor with a co-payment plan, they simply pay the co-payment for an office

visit and do not have to pay for any follow-up diagnostic tests, such as an MRI, that may be ordered by their primary care physician. However, under a deductible plan, not only does the office visit payment apply, but also all diagnostic services ordered are subject to the deductible - meaning the employee would have to pay for any and all tests out-of-pocket until he or she reaches the deductible threshold, which could total as much as \$1,000 depending upon the deductible chosen.

Deductible plans can be beneficial in some circumstances, because they typically carry much lower premiums. The decision to choose a co-payment or deductible plan, however, will have major impacts on premiums and out-of-pocket costs for employees and must be made only after careful analysis of the covered population, their utilization histories and relevant financial models. In the case of this wholesale company however, the decision was made with the improper assumption that the lower-premium, deductible plan would automatically be better for all concerned. It turned out to be the opposite, increasing the company's costs and the employees' out-of-pocket expenses dramatically.

The solution for this company, after a careful review of the data, was to return to a co-payment plan with a different insurance carrier. This plan, which we helped design for this company, held the premiums level for the business, but reduced out-of-pocket expenses for employees. And, by avoiding the anticipated double-digit increase in premiums for the coming year, the company freed up enough money in its benefits budget to roll out a new dental coverage plan.

This company's experience is not uncommon for many small and mid-sized businesses that don't have a dedicated human resources person expert in negotiating with insurance carriers and designing health plans. These companies tend to be owner-operated and managed by a small staff that needs to spend most of their time and energy on the core aspects of running their business. Dealing with employee benefits is one of many administrative hats that the owner/manager must wear, so owners can't be expected to be health plan experts.

## State and federal changes ahead

To further complicate matters for businesses, 2006 will bring with it the uncertainty of potential changes that may impact employee health benefits, given that the state Legislature is now working on a sweeping health insurance reform proposal. Various versions of the plan have included an employer incentive program, an individual mandate program, an expansion of MassHealth eligibility, new low-cost, high-deductible group plans, or any combination thereof. It is highly likely that some version of this health insurance reform package will be adopted so companies will need to be informed to make the business decisions about health insurance plans for the coming years.

On the federal level, the evolving Health Saving Account (HSA) program is also likely to become an increasingly popular vehicle to help pay for health coverage. Unlike the use-it-or-lose-it model of the federal Flexible Spending Account (FSA), the HSA allows employees to set aside pre-tax dollars for health expenses and keep the money not spent. The dollars build up in a tax-deferred investment vehicle for employees, not unlike a 401K plan. HSAs are relatively new, and integrating them into health insurance carrier plans remains a challenge. But that is sure to change over time. Given the consumer health aspect underlying the HSAs, and the ability to use the funds for investments, we expect HSAs will become a bigger part of the benefits management workload companies will soon face.

These issues, coupled with an expected round of rate increases in 2006, converge to make health benefits planning and management a major challenge for the coming year.

To grapple with these issues, it will make sense for many small and mid-sized companies to seek professional advice in handling their health benefits renewal this year. Companies without benefits management expertise run the risk of paying too much for health insurance benefits or not leveraging as much coverage for their employees as possible, within their existing budgets.

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